Special Liquidity Facility

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Special Liquidity Facility for MFs

- The SLF-MF is a two-week window in which the RBI will lend money to banks at the repo rate for 90 days.
- The funds that banks borrow under this window can be used only for meeting the liquidity needs of mutual funds.
- This could be either through outright purchase of certain debt instruments held by them, or lending to them using their bonds as collateral.
- The debt instruments so acquired can only be investment-grade corporate bonds, commercial papers, debentures and certificate of deposit.
- The total amount that the RBI promised to lend through the SLF-MF is ₹50,000 crore, but this is subject to change in the future.
- The RBI has allowed banks to categorise the money borrowed using this facility as part of their held-to-maturity portfolio.
- Loans by banks to mutual funds under this facility would also not be considered as part of their capital market exposure and adjusted non-bank food credit. The latter is used to calculate banks' achievement of priority lending targets.

Significance of SLF-MF

- As the bank deposit and small savings scheme returns have been falling lately, many individual investors have parked their savings in debt funds.
- There are all kinds of debt funds, and the ones with higher risk earn a higher return.
- Tax efficiency of debt funds has also been a draw. Investors who have moved from bank deposits to debt

mutual funds that take on credit risk have witnessed multiple shocks over the past few years.

- In times of uncertainty due to the Covid-19 pandemic, where many people are trying to keep their savings safe, the SLF-MF is a confidence-inspiring measure for the mutual fund industry and for bond markets.